

LENNAR CORP
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11:00 am ET

Coordinator: Welcome to Lennar's first quarter earnings conference call. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question and answer session.

Today's conference is being recorded. If you have any objections, you may disconnect at this time. I will now turn the call over to David Collins for the reading of the forward-looking statement.

David Collins: Thank you and good morning, everyone. Today's conference call may include forward-looking statements, including statements regarding Lennar's business, financial condition, results of operations, cash flow, strategies, and prospects.

Forward-looking statements represent only Lennar's estimates on the date of this conference call and are not intended to give any assurance as to actual future results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties.

Many factors could affect future results and may cause Lennar's actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described in our earnings release and our SEC filings, including those under

the captioned risk factors contained in Lennar's annual report on Form 10-K, most recently filed with the SEC.

Please note that Lennar assumes no obligation to update any forward-looking statements.

Coordinator: I would like to introduce your host, Mr. Stuart Miller, Executive Chairman and Co-CEO. Sir, you may begin.

Stuart Miller: Very good. Good morning, everybody, and thank you for joining us today. I'm in Miami today together with Jon Jaffe, our Co-CEO and President, Diane Bessette, our Chief Financial Officer, David Collins, who you just heard from, our Controller and Vice President, Bruce Gross, our CEO of Lennar Financial Services, and a few others are here with us as well.

As usual, I'm going to give a macro and strategic overview of the company. After my introductory remarks, Jon's going to give an operational overview, updating construction costs, cycle time, and some of our land strategy and position.

As usual, Diane is going to give a detailed financial highlight, along with some limited guidance for the second quarter and full year '24. And then, of course, we'll have our Q&A session. As usual, I'd like to ask that you please limit yourself to one question and one follow-up so that we can accommodate as many as possible.

So let's go ahead and begin. We're very pleased to report another very solid and consistent quarter of operating results for Lennar. We've continued to execute our operating plan effectively into the first quarter, driving excellent operating results, and we have simply never been better positioned from

balance sheet to execution to operating strategy to address market conditions as they unfold for the remainder of '24 and beyond.

In the first quarter, we started 18,338 homes, we sold 18,176 homes, and we delivered 16,798 homes, while we expect deliveries for the year to be approximately 10% higher than last year at 80,000 homes.

Next quarter, we expect to start approximately 21,000 homes, sell approximately 21,000 homes, and deliver between 19,000 and 19,500 homes. Admittedly, we aren't quite there yet, but we are getting closer and closer to an even-flow manufacturing model that we believe will continue to enhance our cash flow, our bottom line, as well as our predictability.

Last year, we grew at a 10% pace in a very difficult year. And we believe we'll grow at a 10% pace again this year in complicated economic conditions. And it is being done by a carefully designed program to maintain volume, maximize efficiencies and cost reductions around production, maintaining even flow of production and sales, and rebuild our asset base and balance sheet in order to drive cash flow, effective capital allocation, and higher returns. That is total shareholder returns, returns on assets, and returns on equity.

I know I didn't mention margin yet. That's because, as I've said before, margin is the springing mechanism that enables all of this to happen. This quarter our margin was 21.8%, somewhat higher than expected.

And next quarter, we expect our margin to be approximately 22.5%, depending on market conditions. And for the full year, we expect margin to be approximately the same as last year's full year margin of 23.3%, but that, of course, will depend on market conditions as well. We will see.

Additionally, we've continued to drive strong cash flow and allocate over \$500 million to repurchase 3.4 million shares of stock and improve our balance sheet with a home building debt to total capital ratio of under 10%. While we know we have accumulated a sizable \$5 billion of cash on our book, we are crafting our strategy for appropriate capital allocation.

Overall, the macroeconomic environment remains relatively strong for the new home builders. The general theme remains primarily focused around very strong demand for housing, limited by the chronic housing shortage that is particularly problematic for working-class families and their ability to find affordable or attainable supply.

Demand for that product remains robust if it can be built at an attainable price point. The economic environment driving demand has been relatively favorable, supported by low unemployment and fairly strong consumer confidence.

Generally speaking, consumers remain employed, they are confident that they will remain employed, and they believe that their compensation is likely to rise. This is most often the foundation of a very strong housing market.

Along with the supply shortage, the additional limiting factor continues to center around affordability, driven by the impact of higher interest rates and stubborn inflation. With higher interest rates, affordability continues to be tested as higher monthly payments make qualifying for a loan increasingly difficult.

At the same time, inflationary pressures have driven traditional cost-of-living expenses higher over the past two years, which has made saving for a down

payment increasingly difficult. Higher prices have also started to lead to increased personal and credit card debt as families stretch to pay their bills. We've started to see early evidence of debt delinquencies showing up and derailing some mortgage applications.

While interest rates have continued to move higher and lower as the Fed continues to seek economic data indicating that inflation has been controlled, the consumer has been navigating an affordability gauntlet.

The new home builders have worked out a variety of incentive structures that range from interest rate buy-downs, to closing cost pickups, to price reductions, all designed to meet the purchaser at the intersection of need and affordability. Those incentives have increased and decreased as interest rates have moved up and down. Home builders have been uniquely able to capture demand by using these incentives to unlock the affordability constraint and enable purchasers to transact.

Against this backdrop, in our first quarter, we've been focused on and consistent in executing our core operating strategy. We've continued to migrate to a pure play manufacturing model across our home building platform and each of our 40 home building divisions in order to reduce production costs while we generate consistent cash flow.

Additionally, we are re-engineering our products for efficiency and volume in order to enhance our inventory turn and grow volume to contribute to build a balanced and therefore healthier overall housing market. We have also continued to migrate to a land-light balance sheet while we grow our business and expand market share in order to drive total shareholder return, return on inventory, and return on equity.

We are, so to speak, continuing to modernize and upgrade the Lennar airplane while we are flying the plane and putting execution and safety first as we fly. It has been a busy and productive quarter for Lennar, and we continue to execute in the short-term while we continue to build our platform for continued and future success.

So let me break some of this down. On the operational side, we are running under a by-design operational model where we are starting homes at a pace designed to increase market share while we maximize logistics and efficiencies in order to benefit from reduced construction costs.

Our trade partners are given visibility on starts and timing expectations so that they can be more efficient and help pass efficiency savings on to our customers through more affordable products. By driving volume, we gain market share in most of our core markets as we lean in when others pull back.

Our trade partners see a consistent and dependable partner that is worthy of the designation of Builder of Choice. We work side-by-side with our trade partners while we attract additional trade partner relationships. Participants find that they have dependable and consistent work with our production strategy, which leads to higher productivity and, therefore, cost savings.

Through market share growth in local markets, we enhance the ability to better manage our costs, enhance our efficiency of operation, reduce cycle times with efficient production templates, and enhance our inventory turn. Jon will discuss this in more detail in just a few minutes.

Driving our confidence to start homes at pace in order to achieve maximum efficiency in the field is the Lennar Machine. The machine is a combined program of digital marketing, sales consultant engagement and dynamic

pricing. We've described the machine in prior calls and many of you have now come to our office to see it in action.

The machine has completely changed the manner in which we sell homes and enables us to drive maximum efficient production. If we build a home, we sell that home. We sell by digitally acquiring leads through our digital marketing program. Then we filter those leads so the best leads go directly to our sales professionals.

They nurture those best leads or customers while our dynamic pricing model assists in dynamically tailoring pricing in real time to meet the market given consumer desires, market conditions, and competitive factors. The dynamically adjusted pricing, using incentives or price alterations, automatically adjusts our margin, up or down, while we maintain production and sales pace.

We set the production to efficiency, we match sales pace to production, and we deliver the homes we build while we carefully maintain controlled inventory levels, all while reducing production costs and driving consistent cash flow.

I know it all sounds easy, but it's not. But this has been a core pillar of the programming that we've been reworking over the past years, and it's really starting to kick in and work quite well.

Next to our laser focus on volume with production and sales being in even better alignment, we are intensifying our focus on producing affordable and attainable product across our platform. We recognize that the chronic housing shortage is a critical issue, and it's more than just a great talking point.

The reality is that our industry needs to find solutions to building a healthier housing market that is attainable to participants across the economic landscape. Working-class housing is essential to the effective working of our cities across the country, and we hear that from mayors and governors everywhere.

So we've been working on using our strategies for production and cost efficiencies to help build a healthier housing market that is accessible to everyone. Of course, it all starts with lower production costs across our platform. Land, we know, is getting more expensive.

Impact fees also are getting more expensive and labor costs have been rising as well. We can only reduce our input costs by increasing productivity to efficiencies of our operation. Our focus has been on doing just that.

We're building more consistent products that we call our core products that are carefully value engineered, and we are using our start pace to enable an engineered production cycle as well, enabling us to reduce cycle time and to work with our trade partners to build efficiencies in logistics and the way that we run our community production.

We've also continued working on additional product approaches to help build a healthier housing market. We've intensified our focus on build-to-rent, that is community-scale, and single-family-for-rent, scattered home sale markets.

We believe that we can and need to build additional production for professionally-owned housing that can fill an important need. But those professional purchasers need cost efficiencies in today's interest rate environment in order to make their rents attainable, and we can provide that.

There are families who are building their future and aspire to single family lifestyle with backyards and schools and parks but who can't yet afford a down payment or don't have the credit characteristics to qualify the mortgage that they need.

Institutional buyers are filling that void for those families. Many across the industry have criticized the professionally owned market and the investor class that competes with primary homeowners to purchase product for rentals.

This is flawed thinking. Those investors are actually filling a critical need for the underserved families who seek to bridge the lifestyle for their family while they build the down payment and credit score to ultimately achieve homeownership.

This is the critical, equitable side of home production, and the institutional buyers are not competitors to the primary buyers, they are additive to the valuable housing stock, enabling those who don't have a family that can help them achieve the lifestyle they want while they build their capital capacity.

We are working across our platform with our institutional partners to produce more structured programs to provide more housing for those who need professional ownership as a stepping stone for the ultimate home of their own.

We are also engaging our Blue Chip multifamily platform to build attainable rental product in an off-balance sheet configuration. We have a strong history of successfully building multifamily product across the country. We have been building those products in an off-balance sheet configuration, and we expect to continue to build this vital attainable product without encumbering our balance sheet.

Finally, we have built and continue to refine our land strategy by design as well in order to dovetail with our production orientation. Every home that is going to be built needs a homesite with a permit and those homesites need to be optioned and off-balance sheet until we're ready to build.

We continue to focus on a just-in-time delivery program for land just like we have for lumber and appliances and other products, and we continue to make excellent progress in this regard. We accomplished this by both negotiating option deals with landowners and developers and also creating structured land bank strategies, often with private equity capital.

By consistently focusing on our land light strategy, we've materially enhanced and generated consistent cash flow through the ups and downs of interest rate changes, and we've enhanced our balance sheet and our liquidity, even after redeeming debt and purchasing stock over the past years, along with purchasing \$500 million of shares of stock through this quarter.

Our balance sheet is situated today with a 9.6% homebuilding debt-to-total cap ratio, with \$5 billion of cash on hand and \$0 drawn on our revolver, and with an expected \$3.5 billion, plus or minus, of net cash flow over this next year.

Accordingly, we have the flexibility to allocate capital strategically, first, of course, to grow, while also retiring debt, paying appropriate dividends, and repurchasing shares of Lennar stock. Accordingly, this quarter, we raised our dividend to \$2 per share and authorized an additional \$5 billion of stock repurchases as we continue to drive total shareholder returns.

Even with these capital allocations, many have suggested that given the tremendous success of our migration to our land light program, we have

accumulated too much cash on our balance sheet, which limits the ability of our returns to move higher.

While we have understood the concerns, we have remained patient as we have evolved not just the migration to the land light configuration, but also have remained focused on the long-term durability of the land bank structures involved. Private equity capital can be fickle.

By driving volume through these programs, we have gained advantaged insights into and refined the workings of our strategic land banks. The underlying plumbing systems for the land banks has been refined and questions have now been answered as to the durability of the capital partners that make up the counterparty relationships with their home building partner, namely us.

Our consistent volume helped define both trust and dependability and has taken those relationships to another level as neither party flinched as market conditions tested the boundaries of relationships. While adjustments were made and lessons were learned, the structures and relationships became stronger and more durable.

Accordingly, we have now rekindled our focus on a strategic spinoff that can be cleanly focused on fortifying durable land strategy. By spinning our own land, excess land, in a taxable spin, we believe that we can create an additional, though with permanent capital, vehicle that can option developed homesites to Lennar and recycle capital into new homesites, while distributing market-appropriate returns to shareholders.

We have stood up a straw man vehicle that is under consideration, currently with about \$4 billion of land. It could be more. It could be less. And it is under development and consideration right now.

Such a transaction would distribute capital to shareholders, it would reduce inventory on Lennar's books, and it would provide permanent dependable capital for future land options. Our balance sheet would remain very strong with consistent earnings and cash flow to contribute to pay down debt and continue to repurchase stock.

We know we've had a false start on a prior spin concept and there's no promise of certainty or completion on this program. But on the positive side, our Chief Operating Officer, Fred Rothman, is singularly focused on this initiative, and Fred likes to get things done.

We'll keep you apprised of progress, but progress should happen relatively quickly as this transaction is far simpler in structure.

With that said, let me conclude by saying that our first quarter of 2024 has been another strategic and operational success for our company. While market conditions have remained challenging, we have consistently learned and found ways to address market needs.

We know that demand is strong, and there is a chronic housing supply shortage that needs to be filled. We will continue to drive production to meet the housing shortage that we know persists across markets.

With that said, as interest rates subside and normalize, and if the Fed is going to begin to actually cut rates, we believe that pent-up demand will be

activated, and we will be well-positioned and well-prepared. If not, we will continue to produce volume and increase market share.

To date, we have seen overall market conditions remain generally constructive for the industry. Even though higher interest rates have remained sticky, strong pent-up demand has found ways to access the housing market. Given consistent execution, we are extremely well-positioned for even greater successes as strong demand for affordable offerings continues to seek short supply.

Perhaps most importantly, our extraordinarily strong balance sheet affords us flexibility and opportunity to consider and execute upon thoughtful innovation for our future. We have the luxury to continue to execute flawlessly in the short term while we continue to return capital to our shareholders through dividends and stock buybacks, while we also, and I emphasize the word “also”, pursue strategic distribution to shareholders that fortifies our future as well. We have clearly earned an enviable position.

As we look ahead to a successful 2024, we are well-positioned for and expect to see much more of the same. We are confident that, by design, we will continue to grow, to perform, and to drive Lennar to new levels of consistent and predictable performance.

We are guiding to 19,000 to 19,500 closings next quarter, with approximately a 22.5% margin. And we expect to deliver approximately 80,000 homes this year with a little over a 23% margin. We also expect to repurchase in excess of \$2 billion of stock as we continue to drive very strong cash flow.

We look forward to a very strong year. And for that, I want to thank the extraordinary associates of Lennar for their tremendous focus, effort, and talent. And with that, let me turn it over to Jon.

Jon Jaffe: Good morning. As you heard from Stuart, our operational teams at Lennar continue the execution of our core operating strategies in our first quarter. The focus starts with the Lennar Marketing and Sales Machine.

Every quarter, our divisions continuously learn from their engagement with the Lennar Machine to gain knowledge in how to use this information for decision-making, provide feedback for enhancements, and improve the machine and execution of our strategies. This continuous loop of learnings and improvements drives applied analytics, which enables us to improve our matching of sales to our production pace.

You can see the evolution of this improvement in our operating results as sales were evenly matched with sales in the first quarter and are projected to be evenly matched again in the second quarter. While there is more progress to be made, this matching of sales and production is leveling out our closings from quarter to quarter.

The goal is even flow deliveries, where by design, starts gradually increase quarter over quarter to ultimately provide a consistent number of deliveries throughout the year. This operating model produces the most significant of all the efficiencies that benefit our trade partners.

To optimize the pricing of each home, this strategy is more than just about the pace of sales, but about selling the right homes at the right price. In every division, Mondays are now referred to as "Machine Mondays".

Our operating teams gather to review dashboards, informing them of the prior week's results compared to the planned activity. This analysis of the prior week's activity from digital marketing leads to sales pace and price of homes sold is evaluated to see if we sold the right homes, thus informing our decision-making and the plotted course of action for the current week.

As the week unfolds, this is reevaluated to make adjustments. All of this analysis enables each division to make ongoing adjustments, matching sales to unsold production as homes progress towards completion.

In our first quarter, as interest rates fluctuated, this process informed us as to where we have pricing power or where we need buydown of interest rates and/or other incentives to maintain the desired pace. The confidence we have in this by design sales strategy allows us to maintain consistent starts.

These starts lead to increased market share. This has seen a growth of 28% in sales and 23% in deliveries year-over-year as our consistent starts have filled the void of other builders who pulled back. This consistency of starts and related share gain have positioned Lennar with a number one or two market share in 33 of our 40 operating divisions, with 23 of these 33 divisions having the number one market share.

Here are some examples of our markets where we have both the leading market share position and also have increased that share. In the Carolinas, market share in Raleigh improved to 20%, up from 16%, and Charleston at 24%, up from 22%.

In the Midwest, our market share in Indianapolis is up 7% to 34%, Minnesota is up 4% to 29%, and Chicago is up 5% to 24%. Our market share in San

Antonio grew by 6% to almost 24%. In San Diego we grew from 35% to 40%, in Central Valley from 31% to 38%, and in Tucson from 14% to 18%.

In Florida, our market share increased in Tampa from 15% to 21%, and in Jacksonville from 17% to 24%. Here in Miami while we did not grow our industry-leading market share, we did maintain a very healthy 75% share.

Our sales pace of 4.9 homes per community in Q1 is up from the pace of 3.9 in Q1 of last year. This increase was by design to match the starts pace of 4.9 from the fourth quarter of 2023.

In our first quarter, the 30-year fixed rate was 7.37% at the start of the quarter, then down to 6.75% in the middle of January, and back up above 7% in the middle of February.

Using insights from Dynamic Pricing, our home building teams worked closely with our Lennar mortgage teams to find the right mortgage solutions, homebuyer by homebuyer.

On to cycle time and construction costs. As we continuously improve the way we execute this game plan, we are also continuously working to deepen the partnerships with our trade partners. We focus on maintaining both a high volume and a consistent volume of homes under construction.

These and the other efficiencies discussed benefit our trade partners, enabling us to lower construction costs in a cooperative manner with our trades. By consistently starting homes, even as interest rates rose above 7% during the quarter, we increased our sales by 38% from the prior year, and they were flat sequentially from Q4.

This consistent and increased level of starts attracts a larger trade base to Lennar, and together with a normalized supply chain, led to another meaningful improvement in our cycle time.

For the first quarter, cycle time decreased by seven days sequentially from Q4, down to 154 days on average for single-family homes, a 30% decrease year-over-year. With cycle time stabilizing, combined with ongoing efficiency gains, we are now designing build templates that will further reduce cycle time on future starts.

We focus on the building blocks of volume, consistency, predictability, cycle time, and even flow to achieve production efficiencies, enabling our trade partners to lower their supply chain and labor costs.

Looking at the first quarter, as expected, our construction costs fell sequentially from Q4 by about 2% and on a year-over-year basis by about 11%.

Moving forward, to drive further efficiencies and cost reductions, we are laser-focused on the consistent use of highly-valued engineered home plans, which, as Stuart mentioned, we call our core product strategy. This strategy has recently begun implementation in Texas and is scheduled to be rolled out in Florida this year and will follow thereafter in the rest of our markets.

These engineered efficiencies, together with significantly higher use frequency of these core plans, will further cement our position as the Builder of Choice with our trade partners. The reduced cost and time to build these core plans will help us achieve the goal of delivering attainable housing to meet the needs of the home buying consumer.

Next I'll discuss our land light strategy. In the first quarter, we continued to effectively work with our strategic land and land bank partners where they purchased land on our behalf and then delivered just-in-time homesites to our homebuilding machine, as Stuart described.

In the first quarter, about 80% of our \$1.6 billion of land acquisitions in the quarter were finished homesites purchased from these various land structures. This 80% reflects a view of prior land purchased into these structures that is now being delivered to us for homesites.

In the first quarter, about 90% of our new land acquisitions were acquired into our off-balance sheet land structures. We continue to make significant progress in the first quarter as the years supply of owned homesites improved to 1.3 years, down from 1.9 years, and our controlled homesite percentage increased to 77% from 68% year-over-year.

The bottom line is focusing on our operating strategies, which result in a reduced cycle time and the reduction in land owned has increased our cash flow as well as improved our inventory turn, which now stands at 1.5 versus 1.3 last year, a 15% increase.

In the first quarter, we continued to refine the execution of the strategies Stuart and I have reviewed. From the Lennar marketing and sales machine to our production processes and land strategies, our focus is consistent, improvements are continuous, and change is ever present.

As Stuart said, it sounds simple, but it isn't. It's a lot of hard work, a lot of trial and error, and it takes a lot of grit. Fortunately, we have a great team of associates who have leaned into each of these strategies and are executing at

the highest levels. I want to add my appreciation for their hard work and dedication, and now I'd like to turn it over to Diane.

Dianne Bessette: Thank you, Jon, and good morning, everyone. So, Stuart and Jon have provided a great deal of cover regarding our home building performance. So, therefore, I'm going to spend a few minutes on the results of our financial services operations, summarize again our balance sheet highlights, and then provide high-level estimates for Q2 2024.

So starting with financial services. For the first quarter, our financial services team had operating earnings of \$131 million. Mortgage operating earnings were \$100 million compared to \$59 million in the prior year.

The increase in earnings was driven by an increase in lock volume, which was the result of higher home building volume and a higher capture rate as well as higher profit per locked loan, which resulted from higher secondary margins and lower cost per loan as the team continues to focus on efficiencies.

Title operating earnings were \$33 million compared to \$23 million in the prior year. Title earnings increased primarily as a result of higher volume and greater productivity as the team continues to embrace technology to run a more efficient business.

These solid results were accomplished as a result of great synergies between our homebuilding and financial services team. They truly represent the spirit of One Lennar.

So now turning to our balance sheet, this quarter once again we were steadfast in our determination to turn our inventory and generate cash by maintaining

production and pricing homes to market with the goal of delivering as many homes as possible to meet housing demand.

The results of these actions is that we ended the quarter with \$5 billion of cash and no borrowings on our \$2.6 billion revolving credit facility. This provided a total liquidity of \$7.6 billion.

As a result of our continued focus on balance sheet efficiency and reducing our capital investments, we once again made significant progress on our goal of becoming asset light. As Jon mentioned, at quarter end, our years owned improved to 1.3 years from 1.9 years in the prior year. And our homesites controlled increased to 77% and 68% in the prior year, our lowest years owned and highest controlled percent in our history.

At quarter end, we owned just under 97,000 homesites and controlled 323,000 homesites for a total of 420,000 homesites. We believe this portfolio provides us with a strong competitive position to continue to grow market share in a capital-efficient way.

As Jon mentioned, we spent \$1.6 billion on land purchases this quarter. However, 80% were finished homesites where vertical construction will soon begin. This is consistent with our manufacturing model of buying land on a just-in-time basis, which is less capital-intensive.

Our goal is that over time, we will continue to reduce our ownership of land and purchase homesites on a just-in-time basis, and our earnings should more consistently approximate cash flow as the need to reinvest it back in the business is lessened.

And finally looking at returns, our inventory turn was 1.5 times and our return on inventory was 30.5%. During the quarter, and consistent with our production focus, we started about 18,300 homes and ended the quarter with just under 40,000 total homes and inventory.

This inventory number includes about 2,200 models and also includes about 1,000 homes that were completed unsold, which is less than one home per community, as we successfully manage our finished inventory levels.

Consistent with our commitment to strategic capital allocation, we repurchased 3.4 million of our outstanding shares for a total of \$506 million. Additionally, during the quarter, as Stuart mentioned, we increased our annual dividend to \$2 per share from \$1.50 per share. So we paid total dividends this quarter of \$139 million.

And looking at our debt maturity profile, our next senior note maturity is \$454 million, which is due in April 2024, so next month. Then there are no maturities until May of 2025.

We continue to benefit from our previous paydowns of senior notes and strong earnings generation, which brought our homebuilding debt to total capital down to 9.6% at quarter end, an improvement from 14.2% in the prior year.

We remain committed to increasing shareholder returns. Our stockholders' equity increased to almost \$27 billion and our book value per share increased to \$95.74 and our return on equity was 15.8%.

In summary, the strength of our balance sheet, strong liquidity and low leverage provides us with significant confidence and financial flexibility as we move through 2024.

With that brief overview, I'd like to turn to Q2 and provide some high level guidance. Starting with new orders, we expect Q2 new orders to be in the range of 20,900 to 21,300 homes as we keep our production pace and sales pace closely aligned.

We anticipate Q2 deliveries to be in the range of 19,000 to 19,500 homes with a continued focus of efficiently turning inventory into cash.

Our Q2 average sales price should be in the range of \$420,000 to \$425,000. We expect gross margins to be about 22.5% and our SG&A about 7.2% with both estimates having some plus or minus depending on market conditions.

For the combined home building, joint venture, land sales and other categories, we expect to have earnings of about \$25 million. We anticipate our financial services earnings for Q2 to be in the range of \$110 million to \$115 million based on expected product mix in our mortgage operations.

We expect a loss of about \$20 million for our multifamily business and also a loss of about \$20 million for our Lennar other category. The Lennar Other estimate does not include any potential mark-to-market adjustments to our public technology investments since that adjustment will be determined by their stock prices at the end of the quarter.

Our Q2 corporate G&A should be about 1.8% of total revenue, and our charitable contribution will be based on \$1,000 per home delivered. We expect our tax rate to be about 24.5% and the weighted average share count should be approximately 274 million shares.

And so on a combined basis, these estimates should produce an EPS range of approximately \$3.15 to \$3.25 per share for the second quarter. For the full year, we remain committed to delivering 80,000 homes, which is about a 10% growth year-over-year, with a gross margin that is consistent with last year's gross margin.

We also remain confident with our cash flow generation, as we indicated. As such, we are still targeting a capital allocation of at least \$2.5 billion, \$454 million of which will be allocated to the April debt maturity that I mentioned and the balance to share repurchases. And with that, let me turn it over to the operator.

Coordinator: Thank you. At this time, we will begin the question and answer session. Please limit it to one question and one follow-up. If you would like to ask a question, you may press star 1. To withdraw your question, you may press star 2.

One moment, please, for the first question. And that comes from Alan Ratner with Zelman and Associates, your line is open.

Alan Ratner: Hey, guys. Good morning. Nice quarter and thanks for all the great commentary so far. Very helpful. I appreciate it. Stuart, first one I wanted to ask you, it sounds like you, and maybe I'm reading too much into this, but it sounds like you were touching on mortgage qualification issues a little bit more than you have in recent quarters.

I'm curious if you've seen something specifically in the near-term that is leading you to highlight that or if you're just kind of commenting more broadly on the fact that affordability is stretched, which I don't think is much of a surprise to anybody at this point.

Stuart Miller: So I think it starts with the fact that affordability is stretched, but we are definitely seeing a little bit more credit card debt and personal debt from the customer showing up in their applications. We have seen some delinquencies in some of that debt.

Bruce, maybe you'd like to comment a little on that.

Bruce Gross: Sure. You know, I think what we're seeing is when you look at denials in particular, more of denials are having a higher percentage relating to debt to total income. So there's more debt to pay off and that's something new that we've noticed this quarter.

We often work with the buyers, and we're able to work through a lot of the conditions, but that one point is something we are seeing different this last quarter.

Alan Ratner: Got you. Bruce, great to hear your voice, and thank you for that info. And then second question, it seems like the market is generally tracking in line with what you expected three months ago, and I think the guidance reflects that.

Stuart, I think three months ago, probably the main difference is I think we and you and probably everybody, we're probably expecting rates to be lower by now, and some of the inflation metrics might be a little bit stickier than people were hoping for.

So, when you think about the margin guide for the back half of the year, it does imply a pretty healthy ramp, and I think your comments last quarter

suggested an expectation that as rates move down, you would be able to pull back a little bit on incentives and discounts.

And I'm just curious if that thought process has changed at all or if you're seeing enough on the demand side today that you've either already done the heavy lifting on pulling back on incentives or you're confident that that's going to transpire over the next few months?

Stuart Miller: So a really interesting question, Alan, and let's start with the fact that demand is strong. And I can't emphasize that enough, that demand is strong.

Now, with that said, there's limited supply and there's also affordability factors that are playing into this. And yes, there was a bit of enthusiasm in the market that interest rates were going to be moving down a number of times as we went through 2024. Some of that enthusiasm has subsided.

What I love about our program is that our program cuts through the middle. What I don't see is another ramp up in interest rates, but anything can happen. But inflation hasn't yet revealed itself as fully under control, and I don't feel like the Fed has built up that confidence yet that says we're ready to start moving interest rates.

And our program enables us to succeed quite well if interest rates move down. In fact, we're really levered to the fact that if interest rates move down, our margins should do quite well.

But to the extent that interest rates basically stay the same or migrate upward a little bit, we're still pushing volume, pushing focus on rationalizing expenses or the cost of building homes together with maximizing price and minimizing incentives that actually have to be used in order to generate strong margins.

So our view today stands exactly as it was three months ago, even though there was more enthusiasm at that time for rates going down. We feel pretty strongly that we're going to be able to accomplish the margin levels that we've talked about in the environment regardless of how it moves forward.

Now, we have a lot of levers to pull and I think that we're really connected to the market, and we're very focused on production. And I think that production means leverage of cost, whether it's SG&A or cost of production, and I think we're going to be able to produce our margin.

Jon, anything?

Jon Jaffe: I think you covered it. As we said, we continue to refine our ability to focus on the right price per home, which we feel confident will allow us to become even better at those communities and markets where we can pull back on incentives even more. And we'll continue to refine that, and I think that informs our confidence in what we see for the rest of the year.

Alan Ratner: Great. Thanks a lot, guys. I appreciate it.

Stuart Miller: You bet.

Coordinator: This question comes from Stephen Kim with Evercore. Your line is open.

Stephen Kim: Yes. Thanks very much, guys. I appreciate all the color. I had a little bit of difficulty catching all your comments, so apologies if I'm repeating anything here.

But I believe, Stuart, you were discussing maybe a new iteration of Quarterra. I don't know if you're still calling it that, but this time you talked about \$4 billion worth of land, I think, being included in this entity. I just wanted to get some more color around that.

Is that about a half a year's worth of land? How is that \$4 billion different from what was initially conceived? I think you initially talked about \$4 billion, but I believe most of those have now already been put into fund structures.

What is this \$4 billion in land, and how is it different? Is it including other what we might consider non-core assets as well? If you could just give us some more color on this new Quarterra.

Stuart Miller: Okay. So first of all, I have PTSD going backwards and talking about the prior spin, so I'm not going to use the Quarterra name right now. Is that okay with you, Steve?

Stephen Kim: Totally fine.

Stuart Miller: Okay. Good. So I'm not going to talk about this as a reincarnation of Quarterra because it isn't. With the prior spin, we were focused number one on a tax-free spin and number two, it was basically our multifamily, single-family for rent assets that we were spinning into a different kind of operation.

This is specifically taxable spin, straight down the fairway, land that is basically under production, that is regular operating land. It is not, you know, excess or ancillary property or anything like that. It should be cash flowing immediately. And it is just a straightforward spin of a land program that

dovetails extremely well with what we already have in place relative to other land banking programs.

This enables us to build yet another vertical that will be complementary to the others that we have, but it gives us a broader range of feeders that enable us to fortify the durability of our land light strategy.

And that's been our focus, is how do we make sure and ensure that the market conditions we have today are market conditions that we can depend on in the future? Yes, we have land developers. Yes, we have land sellers that we option land from, but we also have the added benefit of land banking structures.

And we're creating another unique land banking structure with a permanent capital vehicle attribute that enables us to create that durability, that confidence that as we go forward, just like with lumber, just like with appliances, land becomes more of a commodity that we take down just-in-time.

Stephen Kim: That's really helpful. I appreciate the distinction there. How about these other assets which were initially conceived to be in this entity that had previously been called Quarterra? Are there any plans for that?

Stuart Miller: Well, I think it's widely known that relative to our first fund of multifamily where we do have some investment, that is currently under discussion as to how it will - it has come to the end of its fund life, and we're considering either a sale or some kind of extension program or something.

Those assets will, over time, burn off. The new focus on multifamily is to be building in a more distinctly private equity-based program where we become

much more of a production engine for more affordable product, the products that we were building historically has kind of fallen out of favor given interest rate changes.

And yet affordable rental product is very desirable and something that we can produce much more comfortably within the Lennar homebuilding division. And so it will be much more of a production merchant build kind of program spinning regularly just like the rest of our product.

Stephen Kim: Okay. Got you. That's helpful. Thanks very much for that. The second question I had is I think earlier you were discussing in your prepared remarks the cash that you have on your balance sheet, \$5 billion, and I think you acknowledged that there was some interest in seeing how you were going to deploy that.

Your response to that was that you talked about a strengthening of your relationship with your land partners, how that had evolved, how it had been tested over the last year and a half. And you had come through that now to a place where you had now a much more robust relationship battle-tested with your partners.

And so it seemed to me that you were suggesting that the excess cash that you were holding maybe no longer served the purpose that it once did. I want to make sure that I am paraphrasing what you were saying correctly. And if so, it sort of still leaves open the question of, is there anything else that you might be waiting for, that you want to be patient about to see before maybe deploying that cash?

Stuart Miller: We've been unapologetic about being patient. As we've migrated to a land light strategy, we've wanted to be patient about recognizing that we are developing new sources of land relationships.

We want to make sure that as the market ebbs and flows that what we depended on didn't evaporate, and then all of a sudden we needed to have capital to be able to grow, to be able to produce. I think we've gained a tremendous amount of confidence in the structures that we've built.

We're continuing to gain that confidence. We're looking to build more of those structures in order to have that durability baked in. We're very comfortable holding a stronger balance sheet to just make sure that as we go forward, we continue to grow forward and have the capacity to do that.

I think as we gain confidence, the need for holding that cash becomes less and less important. I think that our \$5 billion share repurchase authorization is an indicator that we're leaning more into returning capital to shareholders along with our dividends, and it's all in stepping stones.

We're not afraid to go slower rather than to go fast, but the fact of the matter is we don't have something else out there that we're looking at, that we're anticipating using cash for. It is simply safety stock, so to speak, to make sure that the plumbing system we put in place is durable for the future and will continue to make sure that we're positioned for the future.

And as we get that confidence, you can expect that we'll be buying back more stock. And that's where the allocation of capital is going to go. It's not going to go to something else that's unanticipated right now.

Stephen Kim: Great. Thanks so much, guys.

Stuart Miller: Thank you.

Coordinator: Thank you. The next question comes from Mike Rehaut with JPMorgan. Your line is now open.

Mike Rehaut: Thanks. Good morning, everyone, or just about this afternoon. I appreciate all the detail and color as always. Two questions. First, a little bit more, obviously, on this proposed land spin.

And I just want to make sure I'm thinking about it correctly, because initially, I think to Steve's prior question, it kind of hit on different areas of your current land program or prior iterations of how you were thinking about moving different assets on or off the balance sheet.

It kind of sounds like this might be more of a - when you talk about a spin and a new or separate vehicle, my mind is kind of moving a little bit towards the Forestar type of relationship that they have with D.R. Horton, and the fact that there's a lot of land that is on the Forestar entity that has a lot of rights of first refusal, et cetera, to Horton, as opposed to something that I thought was more the direction when you started talking about this, which was kind of more moving land towards your existing land banking or land bankers relationships, primarily thinking about the large facility that you have with Angelo Gordon.

So I just want to make sure that I'm thinking about it correctly in terms of it being more the former than the latter. In thinking about that \$4 billion number, right now in your press release, you have about \$4.5 billion, or \$4.7 billion of land and land under development. So \$4 billion would be a huge number, a huge percentage of that amount.

I just want to make sure that I'm understanding that that \$4 billion is coming out of that bucket. And that would, in effect, represent over 80% of your lots owned that are on your balance sheet today.

Stuart Miller: So Mike, I recognize your thirst for more detail. And we'll give you more detail as we refine our program. And I wouldn't be thinking about it through the lens of Forestar.

We're probably not going to go in that direction. But we recognize that you would like to know more, and we'll give you greater detail as we refine the program.

Dianne Bessette: And Mike, the only thing I would add, because you might have been alluding to it, is that this will be structured so there won't be any consolidation on our balance sheet. It would be a true spin of land that's in a separate entity, so we wouldn't have any of those complexities of consolidation.

Mike Rehaut: Okay. But just on that point, if you're talking about a \$4 billion type of number, it would appear that that represents the over 80% of the land and land under development. So we're talking about, in effect, the majority of your land holdings. Is that the right way to think about it?

Stuart Miller: We have been moving to a land light strategy, that would be correct.

Mike Rehaut: Okay. Secondly, on the gross margin front, it was asked earlier about back half of the year. And it seems like to get to the guidance of roughly flat year-over-year for the full year, you're looking at back half gross margins of roughly 24% on average.

We talked about maybe the mortgage market being perhaps less potentially of a downward slope throughout the year than was initially anticipated. What is necessary to hit that 24% in the back half?

Is it kind of already, I would assume, on the books from a land cost basis, construction cost basis, or do you need to have less costly incentives or better pricing because at this point, to the extent that that doesn't come through, it would seem like the only way to hit that 24% if it was much more of just a mix and what's coming through the pipe, so to speak.

Stuart Miller: So as we've detailed our focus and programming has been really carefully crafted by design to focus on using our production program to bring down cost. And to use our machine to focus on right pricing, whether it's price increases that the market gives them or whether it's the very carefully crafted use of incentives.

So the first thing is cost reconciliation together with proper pricing, we feel comfortable that we're going to be able to migrate in that direction. The second part of it is leverage. As we go through the year we're generally producing and delivering more homes, so there's some embedded leverage in that. And so there are a lot of moving parts that make up our view of where our margin is likely to go.

Of course, market conditions can change. They can change to the positive and to the negative. And it's been very clear that margin is somewhat of a springboard for maintaining the volume that we expect to maintain. So there'll be elements of the economic environment that factor into it as well.

Can I detail specifically what the relationships are in those numbers? I don't think so right now. But it's a combination of all of those pieces that will drive our margins as to where we expect them to be for the year.

We do have some visibility in some of the sales that have come through. And we continue to have confidence that we're going to be able to get to that number, to those numbers by the end of the year.

Jon Jaffe: And I think, as we said earlier, assuming interest rates stay relatively flat with where they are, we think we can continue to improve our operational view of how to increase margins in that same interest rate environment.

Mike Rehaut: Great, thanks so much.

Stuart Miller: Okay, you bet.

Coordinator: Thank you. The next question comes from Kenneth Zener with Seaport Research Partners. Your line is open.

Kenneth Zener: Good morning, everybody, or afternoon now. I want to start kind of high level here to understand, or for you to clarify perhaps even flow, where starts lead orders, which is less cyclical. So first high level question is, what is your start capacity based on kind of your land partners? There's some type of guardrails we have there and one of the big focuses of the industry is are you going to grow or return in general?

And on the land spin, why are you guys choosing to introduce this vehicle versus building out the homes or CINO'ing it as you have been doing that already, I guess?

Stuart Miller: Yes, so first question first, production is clearly derived from how many homesites we have available. I think that we have mapped out what we think the production can be given the homesites that we have coming through the system.

And we would expect that what you are seeing as a production schedule is very well baked into both the land availability and its cycle of becoming developed homesites. So, think about the way that you're seeing production put in place to get to that, let's call it, 80,000 delivery number plus some overage for what falls into the next year, but that's already baked into what the starts pace will be.

As I highlighted for about 21,000 starts this quarter we have, of course, excellent visibility as to the homesites that are coming through the system for that and likewise into the next quarters as well. Jon, did you want to add something to that?

Jon Jaffe: Yes, relative to his first question, the land that goes into our land banking relationships, it goes into it with a take-down schedule that matches what Stuart just described. So there are no guardrails that limit our ability to execute on the planned volume.

Stuart Miller: So then as it relates...

Kenneth Zener: Okay.

Stuart Miller: ...to your second question, we've been very focused on building multiple sources of capital for our optioning and land banking programs. Actually building a permanent capital vehicle rather than being completely reliant on

private equity capital constantly coming into a program we thought was a greater good and a big benefit.

So when you ask the question, why go in a different direction when some of the tried and true directions so far are viable as well? They are viable. And we continue to lean into those programs. This is an and rather than an or.

This, to us, is building that durability, that confidence that the capital will be there even as the market ebbs and flows going forward. And so that's why we're choosing to build it this way rather than just drive as we have by taking land from balance sheet, building, CINO and all of that. This is a cleaner way to build a permanent capital vehicle that's durable for the future.

Kenneth Zener: Okay, appreciate that because I - that's good. My second question is about margin communication, which is one of the factors affecting investors today. So margins and your forecast for second half, nobody knows the future, right?

And you're trying to help us, but I think everything you've been talking about with even flow is much more important to your capital allocation and the true returns of your company as you go asset light.

So do you see, and I think we all can model what that free cash flow will be within a range, do you see when you get to that comfort level where land is neutralized, therefore net income equals cash flow, do you guys see yourself systematically buying back stock in line with net income, when we get to that point, or are you guys going to try to time it?

Obviously with NVR, we see that they've run up a lot of cash. Are you hoping to have essentially buybacks match net income systemically when you're

there, or is there something else we should know about your thinking when that time arrives? Thank you.

Stuart Miller: No, I think that generally speaking, I think we're migrating to a more orderly buyback program. We've been conservative in our buyback program, as I've noted, to make sure that the systems that we've put in place are durable for our future, so that conservatism shouldn't be confused.

As we look ahead, we don't have a thought process around a different use of cash. In fact, we're growing into the cash flow model that we've created. And as we find that it is more durable, sustainable, and we test kind of the edges, you can kind of expect that the cash we're generating is basically going to go right back into stock buybacks.

Dianne Bessette: Yes, Ken, I think what I would add is, as you know, previously we've prioritized debt repayment over that. But after we make this April payment we'll only have \$2 billion of notes outstanding.

And it's, one in '25, one in '26, and I think the others are in '27. So, we don't have that priority to focus on anymore. So, I think Stuart's point is an important one, that stock buyback really does become the priority because I think we've done a nice job of deleveraging the balance sheet here from a debt standpoint.

Kenneth Zener: Agree, and thank you very much.

Stuart Miller: Very good. And why don't we go to our last question now?

Coordinator: Thank you. That last question is from John Lovallo with UBS. Your line is open.

John Lovallo: Hi guys. Thank you for taking my questions as well. I mean, I guess the first one, just going back to the spin for a moment.

I mean, if the purpose here is to sort of guarantee capital for Lennar to grow, and sort of guarantee land banking even if private equity pulls back, it would seem that the spin would need to be very well financed, with a strong balance sheet. How much cash do you envision the spin needing?

Stuart Miller: Probably not very much. I think that the assets, as they're configured or as we're thinking about it, should be cash flowing pretty readily. And therefore the spin will actually spin cash and bring in cash and redeploy and should work well on its own.

John Lovallo: Okay, understood. And then maybe just zeroing in on the second quarter gross margin outlook, which is up about 70 basis points sequentially at the midpoint. Can you just walk us through some of the moving pieces there in terms of fixed cost leverage, net price, incremental cost inflation, things of that nature?

Dianne Bessette: Yes, John, I think that we can walk through it more in detail, but I think that, if you look at the second quarter of last year it's very comparable. So you can see the leverage pickup, particularly in field expenses.

Just in order of magnitude, you kind of get a lot of pickup just from that perspective, so that's certainly helpful. And I don't know that there's anything more to say on that.

I think we've talked about controlling incentives, showing the right homes. But part of the credibility should be just the operating leverage that we're going to get, in addition to the other things that we spoke about.

John Lovallo: Okay, thank you.

Stuart Miller: Okay, well that wraps it up for this quarter. I thank everybody for joining us. I'm proud of the quarter that we've put forth. We look forward to reporting more progress as we go forward. Thanks for your time, and we'll get to you next quarter.

Coordinator: That concludes today's conference. Thank you for participating. Have a wonderful day, and you may disconnect.